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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000064

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TAGS: [ECON](#) [EFIN](#) [IZ](#)

SUBJECT: COR FINANCE COMMITTEE CHAIR BEGINS 2007 BUDGET
REVIEW

REF: A. BAGHDAD 31

[B](#). BAGHDAD 26

[C](#). 2006 BAGHDAD 4746

Classified By: Acting Economic Minister-Counselor Edward Kloth for reasons 1.4(b) and (d).

[1](#). (C) Summary: In a January 3 meeting the Finance Committee Chair at the Council of Representatives Ayad Al Samarai (Sunni - Iraqi Islamic Party) asked Treasury Attache and Econoff for post's analysis of the 2007 budget. Al Samarai also described his reactions to the budget and budget law: too little support for the private sector, need for more mechanisms to hold ministries accountable, and too many new powers to the Minister of Finance. Al Samarai felt that greater emphasis should be given to development in the provinces, both in GOI and USG efforts. Some of his ideas may link well to USG proposals like the Brinkley initiative. While the Finance and Economic Committees have the lead on the budget review process, Al Samarai said that every committee will be responsible for reviewing related budget allocations. He expects the review process to take as long as four weeks. End summary.

Supporting the Private Sector

[2](#). (C) Al Samarai mentioned that he had met with Treasury officials during his visit to the U.S. in December 2006, and reaffirmed his request for technical assistance for the Finance Committee. The Treasury Attache summarized USG analysis of the draft budget, noting that Iraq will not be able to sustain a deficit year after year, although it can be financed in 2007 from carry-over funds from previous years (ref B). Al Samarai's first concern with the budget is that there is not enough support for the private sector. "Unemployment is a huge problem, and the private sector faces many obstacles due to security and infrastructural problems," Al Samarai said.

[3](#). (C) His ideas on how the government could support the private sector ranged from providing soft loans, buying generators in places without steady electricity, raising tariffs and creating protected business centers. He thinks that the government plans on supporting State Owned Enterprises; this is okay, he said, but he also wants attention focused on the private sector.

Holding Ministries Accountable

[4](#). (C) Al Samarai said that none of the ministries has made a financial report to the CoR, and that in the future the CoR needs to constructively supervise ministries. "We are not just trying to put obstacles," he said, "we may have

political differences but the issues of finance and economics are separate." Al Samarai thinks that there is a role for the Committees to play in shaping the priorities of the spending ministries, and ensuring that they execute their budgets.

More Power for the Minister of Finance?

15. (C) In meetings with Ministry of Finance (MoF) officials, Al Samarai went over each article of the budget law that accompanies the budget. He is concerned that the Minister of Finance is trying to take authority from the CoR and from the other ministers. The budget law gives the Minister of Finance authority to sign loans and to reallocate money from under-spending ministries (ref B). Al Samarai thought that this request needed strong supporting justifications to be acceptable. Even if the new approach is justified, Al Samarai would prefer that authority be given to a group of ministers or similar committee rather than to just one person. (Note: Deputy Prime Ministers Barham Salih initially proposed giving these authorities to a committee. End note.)

----- Provincial Budget Execution: Don't Blame the Victim -----

16. (C) As mentioned by the Minister of Finance and other members of the CoR, Al Samarai also thinks that the provincial budgets should be increased (ref A and C). He does not hold the provincial governments solely responsible for the low budget execution rates of 2006. Instead he noted that the central government should provide clear guidelines

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and training sessions on budget execution. "Someone in the central government needs to be responsible for helping them understand the rules," Al Samarai said, "I don't care who does it, but someone must be responsible." The Treasury Attache agreed with Al Samarai's suggestion of the need for training, and also noted the importance of having the right structure for collecting data on budget execution rates.

USG Assistance, Focus on the Provinces

17. (C) Al Samarai said that USG assistance has been too focused on the central government, at the expense of helping the provinces. He thinks that many of Baghdad's problems are due to the lack of services and jobs in the provinces. In response to a question about sending more US personnel to the provinces, Al Samarai said that security restrictions made it difficult for people new to Iraq on a one-year contract to effectively work with local communities. Instead, he suggested, the US should hire qualified Iraqi expatriates in economic, engineering, and planning positions in the provinces.

The Budget Review Process at the CoR

18. (C) "First the government was over two months late" in presenting the budget to the CoR, Al Samarai said, "and then they sent it to us during the Eid." As a result, the CoR members have yet to begin the review process in earnest, although there have been informal meetings (ref A). Al Samarai will ask each CoR committee to submit comments on the financial aspects of allocations within its purview. He has met individually with the Deputy Minister of Finance, and with the Director General of Budgets at the Ministry of Finance (MoF); both have been closely involved with the budget formulation. More meetings are planned now that the Eid holiday is over. Al Samarai expects the CoR review

process to take up to four weeks.

Comment

19. (C) Ayad Al Samarai is taking the budget review process seriously and recognizes the leverage it gives the CoR over the Ministries. This process is the first point of control that the CoR has had over the ministries since the formation of the government in spring 2006. Al Samarai, a senior member of the Sunni Iraqi Islamic Party, did not seem to have strong sectarian views about the budget review, and many Shi'a members share his emphasis on the provinces. He is also clearly trying to think of new ideas to address Iraq's economic problems. Some of these ideas could fit well with aspects of USG programs such as micro-loans and the Brinkley Group Initiative. Post will follow up to further explore these ideas. End comment.
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